

**ALASKA STATE LEGISLATURE**  
**SENATE HEALTH AND SOCIAL SERVICES STANDING COMMITTEE**

February 6, 2017

1:31 p.m.

**MEMBERS PRESENT**

Senator David Wilson, Chair  
Senator Natasha von Imhof, Vice Chair  
Senator Cathy Giessel  
Senator Peter Micciche  
Senator Tom Begich

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

**PRESENTATIONS:**

- ALASKA PSYCHIATRIC INSTITUTE PRIVATIZATION FEASIBILITY REPORT;
- ALASKA PIONEER HOMES' PHARMACY SERVICES PRIVATIZATION FEASIBILITY STUDY REPORT;
- JUVENILE JUSTICE FACILITIES PRIVATIZATION FEASIBILITY REPORT

- HEARD

**WITNESS REGISTER**

COY JONES, Senior Consultant  
Public Consulting Group, Inc.  
Austin, Texas

**POSITION STATEMENT:** Presented the Alaska Psychiatric Institute Feasibility Study.

RANDALL BURNS, Director  
Alaska Department of Health and Social Services  
Juneau, Alaska

**POSITION STATEMENT:** Provided an overview the Alaska Psychiatric Institute Feasibility Study.

VICKIE WILSON, Director

Division of Alaska Pioneer Homes  
Alaska Department of Health and Services  
Juneau, Alaska

**POSITION STATEMENT:** Addressed the intent for a new privatization-feasibility study that was requested for the Alaska Pioneer Homes' pharmacy.

JOHN SHERWOOD, Deputy Commissioner  
Medicaid and Health Care Policy  
Alaska Department of Health and Social Services  
Juneau, Alaska

**POSITION STATEMENT:** Addressed a new privatization-feasibility study for the Division of Alaska Pioneer Homes' pharmacy.

BARBARA MURRAY, Acting Director  
Alaska Division of Juvenile Justice  
Alaska Department of Health and Social Services  
Juneau, Alaska

**POSITION STATEMENT:** Addressed the Feasibility Study for the Privatization of Juvenile Justice Facilities.

KARL BECKER, Senior Vice President  
CGL Consulting Group  
Sacramento, California

**POSITION STATEMENT:** Presented the Feasibility Study for the Privatization of Juvenile Justice Facilities.

#### **ACTION NARRATIVE**

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**CHAIR DAVID WILSON** called the Senate Health and Social Services Standing Committee meeting to order at 1:31 p.m. Present at the call to order were Senators Giessel, von Imhof, Begich, and Chair Wilson.

#### **PRESENTATION: Alaska Psychiatric Institute Privatization Feasibility Report**

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**CHAIR WILSON** announced that the committee will hear from the Department of Health and Social Services (DHSS) and its consultants on three recently released privatization and feasibility studies. He said the first presentation is the Alaska Psychiatric Institute Privatization Feasibility Report.

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RANDALL BURNS, Director, Department of Health and Social Services, Juneau, Alaska, detailed that the Alaska Psychiatric Institute Feasibility Study was competitively bid and awarded to the Public Consulting Group (PCG). He noted that PCG is well known in the state and has done numerous studies on behalf of DHSS, the state, and the Legislature. He added that PCG was involved in the study that led to the determination of API's current size.

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COY JONES, Senior Consultant, Public Consulting Group, Inc., Austin, Texas, said he would go over the basic methodology and overview of the study, its scope and how PCG approached the questions around privatization. He added that he would go through PCG's report analysis at a very high level with its findings and recommendations.

He addressed page 4 of PCG's report, "Stakeholder Feedback." He detailed that the sources of information PCG relied on were as follows:

- API;
- Stakeholders and those being impacted across the state;
- Privatization efforts in the last 10 years from psychiatric hospitals as well as privatization across the country on:
  - General hospitals,
  - Private prisons;
- Branches of state government:
  - DHSS,
  - Alaska Court System - potentially heavily effected,
  - Alaska Department of Administration - related to the effects from retirement plan and workers' compensation,
  - Alaska Department of Law,
  - Community health providers,
  - Tribal and non-tribal providers,
  - Advocacy groups,
  - Former API patients,
  - Labor unions and trade associations that are potentially affected.

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He addressed page 5, "Privatization Options" and identified as follows:

1. Full privation where everything but the facility will be privatized. API itself would not be sold, but a private operator would come in as a property manager.
2. Variant of option-1 where a new legal entity would be created as a partnership between the state and a private entity through a joint-operating agreement, either as a public corporation along the lines of the Mental Health Trust or a 501(c) non-profit.
3. Public alternative to privatization where new efficiencies could be implemented under the current management structure in a competitive way to find cost savings or improved service delivery.
4. Outsourcing operational components for privatization:
  - a) Communication Center:
    - 1) Security functions: front desk reception and staff that controls who enters and exits through API.
  - b) Facility and Material Management.
  - c) Psychiatric and Medical Services.
  - d) Nursing Services:
    - 1) 58 percent of care that happens at API.
  - e) Comprehensive Outsourcing:
    - 1) Outsourcing everything but the administration and management.

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MR. JONES addressed page 6, "Financial Assumptions" and detailed as follows:

- Capital cost essentially remains the same for a state or private entity.
- Margins in models were set at 4 percent or 8 percent for either for-profit or non-profit entities. 8-percent is often set for for-profit providers that bid on privatization.
- PCG's salary and benefits modeling is based on a paramount case where South Florida State Hospital was privatized on a full-scale level; "sister" hospitals remained under state management and PCG extensively analyzed differences in salaries and benefits.
- Salaries generally go up and total compensation goes down for private employees because benefits are reduced extensively due to differences in state retirement and health-care plans.
- Benefits account for 36 percent of API's compensation, 22 percent under a private provider.

- Added legal costs for privatization because API is part of the state system and a private provider would have to internalize an added 0.3 percent.
- Overtime cost adjustment because fulltime for the state is 37.5 hours and 40 hours for a private provider.

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SENATOR MICCICHE joined the committee meeting.

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MR. JONES addressed page 7, "Financial Assumptions" regarding costs for: transition, information technology (IT), retirement, and contract monitoring as follows:

- Transition costs incurred regardless of operations.
- \$2.1 million IT upgrade cost avoided by the state if a private provider uses their own IT system.
- \$2 million retirement cost incurred when public employees are removed from the system.
- Costs for options that are less than full privatization is scaled down proportionally.
- 15 percent of total contract cost would go towards the state's new role in procurement and contract monitoring.
- API's revenue would stay exactly the same from Medicaid, Medicare, and insurance.

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He addressed page 8, "Service Delivery Assumptions," and detailed sources to figure out staffing needs as follows:

- Recent reviews at API on nursing staff and potential inefficiencies.
- Stakeholder comments.
- Peer-state hospitals.
- Clinical guidelines on nursing-staff ratios.

He detailed that the stakeholder interviews and the clinical reviews were very helpful in pointing out places where there may be too much administrative overhead, particularly around overtime, scheduling, and shift overlap. He specified that whenever PCG proposed reductions, the reductions were based on an actual situation that was understood and could be made on the ground at the hospital. He said after targeted reductions, PCG compared the full-time equivalent (FTE) levels with other peer

hospitals to see whether the cuts were plausible in comparison to how other hospitals run.

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MR. JONES addressed page 9, "Staffing Requirements," and detailed PCG's findings as follows:

- API's baseline compares closely with the "small peer group."
- API staffing runs a little high in relation to other state hospitals.
- API will always have higher administrative overhead than many other state hospitals because API is not a large hospital.

He said PCG ended up making its recommendation based on comparing API to small-peer-hospital staffing. He asserted that significant cuts can be made both in different levels of administration and nursing.

He remarked that the main staffing difference between a revised state structure and a private provider is in administrative services. He asserted that PCG thinks that the nature of a private provider as part of a larger practice is going to have lower administrative costs whereas API is the only hospital in the entire system to bear all of the administrative costs.

He summarized that PCG shows differences in state versus privatized administrative costs, but direct-care staffing is the same between both models.

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He addressed page 10, "Staffing Requirements" and detailed as follows:

- Administrative:
  - Assumes built-in efficiencies for a private entity where IT and administrative functions are absorbed into a larger corporate structure.
  - Assumes API can operate with administrative levels comparable to small-peer hospitals and significantly greater efficiencies under a private operator.
- Nursing:
  - Assumes API would operate with nurse staffing levels comparable to small-peer hospitals.

- A review of staffing-ratio guidelines found that there are few established industry standards for psychiatric staffing, except for registered nurses (RNs). California requires a 1:6 RNs to patient ratio, API is close.
- API requires 18.1-nursing staff on the floor at all times, 21.2-nursing staff provided under PCG's "recommended staffing scenario."

MR. JONES addressed page 12, "Recommendations for Benefits and Drawbacks: Full Privatization" and detailed as follows:

- Benefits:
  - More flexible compensation could improve recruitment and retention of qualified employees.
  - Division of Behavioral Health (DBH) no longer provides acute inpatient care, but acts as a contract administrator.
  - Relieves DBH staff of resource intensive, day-to-day management duties.
  - Autonomy of a private contractor to implement efficiencies at API.
  - Only way to implement service delivery improvements.
- Drawbacks:
  - Cost prohibitive, even under the "recommended staffing scenario." PCG did not see ultimately that there would be any additional savings in full privatization.
  - Without strong safeguards, further reductions of staff to unsafe levels needed to be financially viable; that is true both for full privatization as well as the joint-operating agreement.
  - \$2 million in termination liability costs.
  - Necessary contractual requirements could deter potential contractors.

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He addressed page 14, "Benefits and Drawbacks: State Management with New Efficiencies" and detailed as follows:

- Benefits:
  - Opportunity for DBH to implement efficiencies that will improve service delivery while containing costs.
  - The greatest possibility for cost savings comes under new efficiencies implemented under state management.

- Staffing expenditures are higher under state management, but the state will reap the benefits from efficiencies from staff reductions and not having the margins that would go to a provider or the additional overhead related to contract monitoring.
  - The state would retain full control of its only acute inpatient-psychiatric hospital.
  - No new additional costs related to procurement, contract administration, legal and margin.
  - Cost-effective under the "recommended staffing scenarios."
  - Low termination liability costs, only applicable under the "recommended staffing scenario."
- Drawbacks:
    - Higher staffing expenditures related to public employees.
    - More administrative burden associated with implementing changes.
    - Contingent on DBH and API management successfully implementing changes.
    - Potential pushback from labor unions when implementing changes.

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MR. JONES addressed page 16, "Benefits and Drawbacks: Communication Center Outsourcing." He summarized that even though the Communication Center is not a big area for cost savings it's the most clearly beneficial option for privatization. Hiring a private-security company would be straight forward to man the front desk 24-hours a day with fewer people involved and significant cost savings, almost 60 percent of what current costs are. [The following was noted in the presentation:]

- Benefits:
  - Lower staffing expenditures due to the shift to a private workforce.
  - A private contractor would require fewer FTEs to provide around-the-clock coverage.
  - No negative impact to service delivery or quality of care.
  - No additional contract administration costs, could be provided in-house.
  - Availability of qualified contractors in Alaska.



- Drawback:
  - Some additional costs related to contracting.

MR. JONES addressed page 18, "Benefits and Drawbacks: Facility and Material Management Outsourcing," and noted that PCG's results were similar to the Communication Center. He said PCG did not see as many savings, but the state could privatize the indirect costs associated with environmental services and maintenance costs without effecting services with patients. [The following was noted in the presentation:]

- Benefits:
  - Lower staffing expenditures due to the shift to a private workforce.
  - No negative impact to service delivery or quality of care.
  - No additional contract administration costs, could be provided in-house.
  - Availability of qualified contractors in Alaska.
- Drawback:
  - Some additional casts related to contracting.

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He addressed page 20, "Benefits and Drawbacks: Psychiatry and Medical Services Outsourcing." He explained that PCG looked at privatizing physician staff and admitted that physicians are a high-cost-level practitioner. He said PCG finds that physician costs generally do not go down with privatization and actually go up because physicians are paid better because the private provider has the flexibility to do so in order to support retention. He revealed that psychiatrist retention is a big issue due to a basic supply problem nationwide. He pointed out that private providers pay more than state operators and the cost for privatizing psychiatrists and physicians to the state would be enormous and not financially viable for the state. [The following was noted in the presentation:]

- Benefits:
  - No reduction in hospital staff for psychiatrists, physicians and mid-level providers.
  - Compensation could potentially increase under a private contractor, improving recruitment and retention.
  - Autonomy of a private contractor to implement efficiencies at API.

- Drawbacks:
  - High contract related costs counteract savings.
  - Cost-prohibitive under PCG's "current and recommended staffing scenarios."
  - Reduction of staff to unsafe levels needed to be financially viable.
  - Lack of clear providers, aside from locum tenens agencies.

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MR. JONES addressed page 22, "Benefits and Drawbacks: Nursing Staff Outsourcing." He said there are cost savings because of the changes in compensation and the fact that the nursing staff deals with 58 percent of the hospital's total employees; however, PCG came short of making a full recommendation because nurses are the core group of practitioners involved in direct services and there was no good way of understanding what the effects from a compensation package change would have on hiring and retention.

He pointed out that API currently has a hard time being competitive with other employers for a very highly valued and scarce labor force for nursing. He admitted that PCG did not know exactly how the noted changes would affect API's ability to retain its nursing staff. He added that PCG questioned if the market existed for a vendor in the Anchorage area to access a nursing-staff resource. He noted that the nursing privatization in other states usually have significant resources both at universities and private providers where there are significant nurse-training programs that allow vendors to come into a hospital and take it over. He set forth that even though PCG did find nurse staff outsourcing feasible, PCG cautions whether outsourcing is truly viable when market conditions are considered. [The following was noted in the presentation:]

- Benefits:
  - Lower staffing expenditures due to the shift to a private workforce.
  - No negative impact to service delivery or quality of care.
  - Modest cost savings can be found through safe staff reductions.
  - Autonomy of a private contractor to implement efficiencies at API.

- Drawbacks:
  - With current FTEs, high contract related costs counteract savings.
  - \$1.4 million in termination liability costs.
  - Possible difficulties finding a qualified contractor.

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MR. JONES addressed page 24 regarding "Comprehensive Outsourcing." He specified that comprehensive outsourcing takes all of the outsourcing options and puts them together. He said PCG did not find outsourcing all of the direct services viable because privatizing the physicians would make the overall outsourcing more expensive. [The following was noted in the presentation:]

- Benefits:
  - Lower staffing expenditures due to the shift to a private workforce.
  - Autonomy of a private contractor to implement efficiencies at API.
  - DBH maintains administrative presence in API.
- Drawbacks:
  - High contract related costs counteract savings.
  - Cost-prohibitive under "recommended staffing scenario."
  - Reduction of staff to unsafe levels needed to be financially viable.
  - \$1.74 million in termination liability costs.
  - Possible difficulties finding a qualified contractor.

SENATOR BEGICH mentioned that he did not hear Mr. Jones address Option 2.

MR. JONES explained that Option 2 had no significant difference from a financial or service delivery perspective from Option 1. He noted that he talked about Option 1 and Option 2 together in his presentation.

SENATOR BEGICH asked if the API nurses are paid more than the private sector.

MR. JONES answered that salaries for API nurses are less, but their total compensation is more due to retirement benefits.

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CHAIR WILSON asked how API's staffing-to-client population ratios compared with peer hospitals across the country.

MR. JONES replied that PCG found that API staffs higher than all of the small-peer hospitals, but not by huge margins. He specified that API was clearly overstaffed in relation to even small hospitals that treat the same kind of patients.

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SENATOR VON IMHOF thanked Mr. Jones for his presentation and noted that the presentation was clear and well researched. She asked what would happen now and what would happen next.

MR. JONES replied that PCG did look at certain efficiencies that can be implemented at API. He cautioned that PCG relied on FY2015 data and recommended reductions may not be viable now. He detailed that PCG definitely made some recommendations for limited privatization that are easy to do and will generate some cost savings, but the core reductions that could happen at API need close review to figure out what a safe reduction is.

CHAIR WILSON asked Mr. Burns to address PCG's recommendations. He inquired if the department's goal is to implement some of PCG's recommendations or come up with a plan after receiving legislative intent on how to proceed forward.

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MR. BURNS answered that the recommendation on the Communications Center will be pursued with a forth coming request-for-proposal (RFP) for privatization.

He said the rest of the recommendations, particularly with the management of API's core business in terms of its clinical services, requires additional thought. He stated that the department needs to take into consideration about waiver applications to the Centers for Medicare regarding seriously bringing on administrative-service organizations (ASO) to manage the behavioral-health system. He revealed that three states have an ASO managing at least one of their public hospitals.

He summarized that the department is sensitive to the pressures on API and its needs. He added that the department also recognizes API's administrative difficulties. He set forth that the department will think about the difficulties and plan as part of the department going forward with the reform of the behavioral-health system as a whole.

SENATOR BEGICH noted that PCG's numbers were based on FY2015. He added that overstaffing was mentioned by PCG and asked if staffing cuts were made in FY2016 and FY2017.

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MR. BURNS replied that staffing is essentially the same.

SENATOR BEGICH asked what the average number of patients were during the same time period.

MR. BURNS replied that Senator Begich's question addresses a significant issue regarding admission pressures on API and its impact on staff. He detailed that API averaged 92-percent occupancy during FY2016 and FY2017. He said averaging over 85 percent has significant impacts on staffing ratios, an issue that needs further examination. He specified that API went over 25,000-patient days in FY2016 which was considerably above FY2015.

CHAIR WILSON inquired if asking for a timeline was feasible for implementing cost-savings measures that will impact API's quality of services.

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MR. BURNS answered yes. He set forth that the question regarding API's capacities should be addressed prior to restructuring. He revealed that some hospitals are considering bringing on mental-health units, which would have a significant impact on what the department will do. He noted that hospitals possibly adding mental-health units will be considered as part of moving forward in the 1115-waiver. He stated that the department will definitely be looking at API as sort of a separate function within the system because API is a key part of the changes that will have to be made, admittedly an expensive one.

SENATOR GIESSEL asked if the department was interested in entering into conversation with other facilities that could be opening up some beds. She opined that community collaboration seems to her to be a critical part. She remarked that when she hears the department talking about applying for 1115-waivers while a report talks about inefficiencies, her translation is "Let's get more federal money to continue to fund an inefficient system," something that does not feel acceptable to her.

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MR. BURNS agreed with Senator Giessel and opined that the real issue is what can be done with the current system and the resources that the communities have to change API.

MR. BURNS revealed that he was the CEO at API and asserted that he is very conscious of what it takes to run the API facility. He stated that everyone has to be very conscious of the pressures on API.

He concurred that the state has talked to other hospitals as well as being aware of hospitals that are thinking about opening up beds. He revealed that one hospital is in Anchorage, which would be really useful, as well as one that is thinking about developing a psych-emergency room like Providence Health; both would be a welcome change and would substantially improve the pressures on API. He opined that the department has to know more than a hospital having an interest and a confirmation on proceeding is needed.

He addressed the quote, "over staffing at API" and concurred with the statement. He noted that the department has a study that suggests that changes need to occur with the API's nursing administration. He said API's staff in nursing administration needs to be deployed to the floors where nurses are actually needed, an adjustment that the department can make; however, he said, "We live in a bargaining-unit system and changes of that nature need to be negotiated and you need to move forward cautiously, so those things take time."

He said under option-3, which addresses efficiencies rather than privatization, the department estimates that 12 to 18 months will be required to bring the efficiencies into practice.

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SENATOR GIESSEL stated that she understood the challenges with the union system that the state operates under. She pointed out that one of the pieces that is not often talked about regarding state government is "systems" and in the case regarding API she stressed that she is interested in outcomes for people, specifically the patients being treated. She asked that information be provided on patients being treated as well.

MR. BURNS noted that developing the measures regarding patient outcomes is part of the 1115-waiver process, but emphasized that the department agrees with Senator Giessel's previous point that she made.

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At ease.

**PRESENTATION: Alaska Pioneer Homes' Pharmacy Services  
Privatization Feasibility Study Report**

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CHAIR WILSON called the committee back to order. He announced that the committee will hear a privatization-feasibility report on the Alaska Pioneer Homes' pharmacy services.

[2:21:38 PM](#)

VICKIE WILSON, Director, Division of Alaska Pioneer Homes, Alaska Department of Health and Services, Juneau, Alaska, detailed that the Division of Alaska Pioneer Homes put out two RFPs on a privatization feasibility study. On both occasions, no one met the minimum requirements.

She explained that the Division of Alaska Pioneer Homes has its own pharmacy data that can be shared with the committee that is not from a consultant. She detailed that the division made a switch in 1996 from multiple private carriers to its own single pharmacy to more economically meet its residents' needs and reduce costs.

CHAIR WILSON asked if a new timeline has been established for putting out a new RFP to meet the conditions in SB 74.

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JOHN SHERWOOD, Deputy Commissioner, Medicaid and Health Care Policy, Alaska Department of Health and Social Services, Juneau, Alaska, remarked that rather than simply putting out another RFP, the division has been in discussions with the Department of Administration to see whether they have some resources.

SENATOR GIESSEL noted that a previous audit by Legislative Budget and Audit indicated that Medicaid-eligible residents at the Division of Alaska Pioneer Homes were not necessarily applying for Medicaid and that was part of the budget gap. She pointed out that the audit report shows the Division of Alaska Pioneer Homes' pharmacy cost was short \$250,000 on the cost of medications. She asked if the report has helped in encouraging qualified residents to apply for Medicaid.

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MS. WILSON replied that Medicare [Part-D] is what really effected a lot of the Division of Alaska Pioneer Homes' costs.

She revealed that all residents must have from either Medicare [Part-D] or another resource. She noted that the Division of Alaska Pioneer Homes' pharmacy made money before the Medicare [Part-D] process. She opined that the pharmacy cost would be less with another broad-overview analysis.

SENATOR GIESSEL noted that another subject that came up in the Division of Alaska Pioneer Homes' audit had to do with controlled substances and one of the facilities not having a secure process. She asked if Ms. Wilson can offer assurance that the controlled-substance process has been remedied.

MS. WILSON replied yes and pointed out that the secure process noted in the audit was handled in an "old school" manner and the process was brought into compliance before the actual study was finished.

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At ease.

**PRESENTATION: Juvenile Justice Facilities Privatization  
Feasibility Report**

[2:31:50 PM](#)

CHAIR WILSON called the committee back to order and announced the next feasibility report.

[2:32:11 PM](#)

BARBARA MURRAY, Acting Director, Alaska Division of Juvenile Justice (DJJ), Alaska Department of Health and Social Services, Juneau, Alaska, read the following statement on the feasibility report:

As authorized by SB 74, the department contracted with Carter Goble Lee (CGL) to conduct a study of the feasibility of privatizing services at select DJJ facilities. The department identified four standalone-detention facilities: Mat-Su Youth Facility, Kenai Peninsula Youth Facility, Ketchikan Regional Youth Facility, and the Nome Youth Facility. The Ketchikan Facility was closed in September of 2106, but remained as part of the study to evaluate the impact of the closure; these facilities provide detention services for youth needing secure confinement who are facing criminal charges and awaiting outcome of court processes and placement. The division appreciates the



tremendous efforts of Mr. Becker and his team to complete this thorough study.

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KARL BECKER, Senior Vice President, CGL Consulting Group, Sacramento, California, addressed page 2 in his presentation, "CGL Overview" as follows:

- CGL has provided justice system analyses since 1976;
- CGL has over 200 staff with backgrounds in justice system planning, operational analysis, and performance reviews;
- CGL has conducted reviews of state adult and juvenile correctional systems for Florida, Texas, Louisiana, Mississippi, Oklahoma, Massachusetts, North Dakota, Virginia, and Colorado;
- CGL's project team was multi-disciplinary and experienced.

He said CGL is one of the oldest, largest criminal justice consulting firms in the country and the company's specialty is performance evaluations, operational reviews, program analysis, program evaluations for the justice systems, both for adult and juvenile. He added that CGL has done projects in Alaska, including the 2014 legislative audit of the Department of Corrections and the recent analysis of staffing in the Department of Corrections.

He addressed page 3 in his presentation, "Project Objectives" as follows:

- Determine the feasibility of privatizing the operation of the state's standalone juvenile-detention facilities;
- Assess the value provided to the State of Alaska by these facilities in terms of their current operations and programs;
- Identify potential alternative uses for these facilities by way of establishing their highest and best use.

MR. BECKER addressed page 4, "Project Approach" as follows:

- Data Analysis,
- Staff Interviews,
- Site Visits,
- Facility Operational Reviews,
- Community Meetings,
- Cost Analysis.

He said CGL's approach was multifaceted. Data was collected from the department in terms by: youths served by the system, the facilities themselves, how the system is organized and operated, and the programs provided in the facilities. CGL spent a good deal of time talking to staff to get their perspective on the system in the facilities, not just facility staff, but probation staff and administrative staff as well. CGL spent a good amount of time to familiarize the analysts with the facilities' operations and conditions. CGL met with stakeholders associated with the facilities' local communities to get their sense of the potential for privatization, performance, and value provided to the local communities. CGL did a cost analysis by looking at the actual-operational costs and efficiencies.

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He addressed page 5, "System Overview." He explained that DJJ operates two types of programs for detained youthful offenders:

- Secure Detention: stabilize justice-involved youth with an objective to facilitate their return to the community and the processing of their cases through the justice system as they await court decision and/or placement.
- Treatment: provide long-term rehabilitative programming for youth who have been adjudicated through the juvenile-justice system.

He specified that the review's focus was on the short-term detention facilities.

He addressed page 6, "Alaska's Juvenile Justice Trends" as follows:

- Criminal charges against juveniles have dropped by 52 percent over the last 10 years.
- Admissions of juveniles to secure detention in Alaska have fallen 48 percent since 2006.
- The average daily population of youth in secure detention declined by 29 percent over this same period.

MR. BECKER added that juvenile crime has gone down nationwide by 60 percent over the last 10 years with the same trends in Alaska.

He addressed page 7, "DJJ Standalone Detention Facilities." He noted that the facilities were all built in the early 2000s in

response to a surge in juvenile-justice population that was occurring in the 1990s; that surge crested in the early 2000s and has declined since then.

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He addressed pages 8-10 regarding population trends for juvenile justice, statewide detention, and youth detention. He noted that juvenile justice "charges," "referrals" and "unique juveniles" in the system has trended down by nearly 50 percent [from FY2006 to FY2016.] He added that admissions to detentions had declined constantly [FY2006 to FY2014], but stabilized from [FY2014 to FY2016].

He addressed page 11, "Current Facility Status." He said Alaska has larger facilities that house both detention beds and treatment beds: McLaughlin in Anchorage, Bethel, Johnson Youth Center in Juneau, and the Fairbanks facilities. The standalone secure-detention facilities total 39 beds and include: Mat-Su, Kenai, and Nome.

He addressed page 12, "Juvenile Detention Privatization" nationwide. He specified that CGL sees a substantial number of facilities are contracted by units of government to house juveniles and detailed as follows:

- 29 percent of the total juvenile-justice population is privately operated facilities, such as group homes and residential care.
- Juvenile-detention facilities are typically non-secure, treatment oriented, and operated by non-profit or social-service agencies.

He specified that the use of private facilities for secure detention is limited. Nationally, eight percent of juveniles in secure detention are housed in private facilities; these tend to be larger institutions with a treatment focus.

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MR. BECKER addressed page 13, "Privatization Feasibility." He set forth that CGL's approach to assessing privatization feasibility was to look at organizations within communities due to the facilities' locations and small sizes. He detailed that CGL interviewed the following:

- Tribal organizations,
- Local public-health agencies,

- Behavioral-health agencies,
- Non-secure residential care/group home providers,
- Education system providers,
- Local social service non-profit agencies.

He revealed that CGL found no private or governmental organizations that had the interest or capability to operate standalone-detention facilities. He stated that due to the absence of interest, CGL felt that the privatization concept is not feasible at the current time.

He addressed page 15, "Privatization Feasibility" regarding factors cited for lack of interest in privatization as follows:

- Lack of expertise/experience in juvenile detention,
- Legal liability/insurance costs,
- Financial burden/exposure,
- Relationship with DJJ,
- Current facility operational performance.

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He addressed page 16, "Potential for Repurposing." He specified that CGL looked at the operational advantages and disadvantages for each of the facilities.

He addressed page 17, "Kenai Current Use Analysis-Advantages" as follows:

- Public Safety:
  - Allows law enforcement to maintain community presence by avoiding time-consuming transports of youth.
- Community/Family Access:
  - Detained youth contact with family and local agencies is a key to their rehabilitation.
- Backup to McLaughlin Youth Center (MYC):
  - Provides backup detention capacity for MYC which prevents overcrowding and avoids the need to open currently closed units.
- Facility Design:
  - Provides an outstanding environment for youth detention.
- Community Support:
  - Strong community support for the facility in its current use.

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MR. BECKER addressed page 18, "Kenai Current Use Analysis-Disadvantages."

- Utilization:
  - 60 percent utilization in 2016.
- Cost:
  - \$2.1 million in 2016.
  - Annual average cost of \$974 per youth per day.

He noted that the average-daily population in 2017 has trended up to close to 10-youths per day, which is the facility's capacity.

He summarized that the Kenai community did not identify any potential use for the facility and the strong feeling was for the facility to continue in its current fashion.

SENATOR MICCICHE asked to confirm that the total spending cost is fairly consistent whether the Kenai facility has an average daily population of 6 or 10.

MR. BECKER answered that the cost is consistent. He revealed that 85 percent of the cost is staffing, and the staffing is basically fixed regardless of the number of juveniles in the facility. He said the only variable cost is food, all other costs are fixed.

SENATOR MICCICHE asked if facility-utilization levels outside of privatization were considered regarding the need for facilities that were not operating at full capacity.

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MR. BECKER replied that the continued operation of facilities is really outside of CGL's scope of study. He detailed that CGL attempted to look at what specific advantages and disadvantages the facilities offer in their current use. He admitted that under-utilized facilities is a major disadvantage and needs to be considered. CGL did take a look at what would happen if a facility was closed and juveniles were moved to another center or a facility that added on. He remarked that adding on to a current facility would require the same amount of staffing as a facility that is being closed.

CHAIR WILSON pointed out that Mr. Becker touched upon not finding any entities currently in the facilities' surrounding areas to take on privatization. He asked if CGL ran cost

modeling on how much the department would pay for privatization. He emphasized that DJJ does wonders in communities with a positive impact, but admitted that DJJ's impact was a reason for there being no privatization interest. He pointed out that national statistics showed that 30 percent of juvenile facilities are privately operated and opined that the private entities saw a use to expand their services.

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MR. BECKER pointed out the juvenile populations Senator Micciche noted are different. He specified that the juveniles' stays are very short in order to stabilize prior to processing through the justice system for treatment or further adjudication. He remarked that any privatization operation would essentially have to staff facilities the way DJJ does. He said DJJ is currently staffing facilities at bare-bones levels. He summarized that CGL believes that there is no ability for a private provider to come in and substantially cut costs by reducing staff. He set forth that the state could have some savings through salary reductions. He said CGL did not do modeling on salary levels for privatization.

He addressed page 20, "Mat-Su Current Use Analysis-Advantages" as follows:

- Public Safety:
  - Allows law enforcement to maintain community presence by avoiding time-consuming youth transports.
- Utilization:
  - Operates at capacity with a growing service-area population.
  - Potential for increased demand for services.
- Facility Design:
  - Provides an outstanding environment for youth detention.
- Community Support:
  - Strong community support for the facility in its current use.

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MR. BECKER addressed page 20, "Mat-Su Current Use Analysis-Disadvantages" as follows:

- Proximity to McLaughlin Youth Center which already serves the Anchorage-metro area, but adding another unit at McLaughlin would involve substantial costs.

He revealed that the annual cost for the Mat-Su facility is approximately \$2.6 million. He added that the facility runs at a high-utilization rate which equates to substantially lower cost-per-day-per-youth than other facilities.

He addressed page 22, "Mat-Su Current Use Analysis-Potential Alternative Uses" as follows:

- Detoxification Center, identified as a strong community need.
- Transitional step-down facility for youth leaving McLaughlin Center after treatment.

He summarized that the identified alternatives would be contingent on additional state resources for operation and facility remodeling.

He addressed page 22, "Nome Current Use Analysis-Advantages" as follows:

- Public Safety:
  - Access to local detention provides a valuable resource to law enforcement for youth who need to be detained.
  - Absence of the facility could limit law enforcement's response to delinquent-youth behavior.
- Location:
  - Only juvenile detention facility within 600 miles and serves the immense geographic area of Northwest Alaska.
- Community/Family Access:
  - Detained youth contact with family and local agencies is a key to their rehabilitation.
- Youth Programming:
  - Provides culturally appropriate programming and a supportive-living environment.
- Community Support:
  - Strong community support for the facility in its current use.

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MR. BECKER addressed page 23, "Nome Current Use Analysis-Disadvantages" as follows:

- Low utilization:
  - Lowest in the department.

- Physical plant maintenance costs:
  - Location requires more resources to continue its operation.
- Operating cost:
  - \$2.8 million in FY2016.

He noted that the Nome facility's year-to-date average-daily-population in FY2017 has rebounded to 8.1 youth-per-day versus 5.0 youth-per-day in FY2016.

He addressed page 24, "Nome Current Use Analysis-Potential Alternative Uses" as follows:

- Modify facility mission to dedicate four beds to long-term, post-adjudication treatment for a dual-mission facility like the McLaughlin Youth Center.
- Target population would be youth that are difficult to place due to complex-clinical needs, age (close to aging out of the juvenile justice system), or in need of transitional services appropriate to Alaska-native communities.
- Nome already has required mental-health services and culturally-appropriate programming for long-term treatment.
- Program could be supported within the existing-facility budget with potential cost savings if youth were diverted from expensive private placements to Nome.
- Establishing a secure juvenile-justice treatment alternative in the region would provide superior program outcomes for local youth.

He addressed pages 26, "Ketchikan Current Use Analysis-Current Status" as follows:

- Facility closed in September 2016.
- Youth transferred to the Johnson Youth Center in Juneau.
- Facility is owned by the City of Ketchikan.
- No immediate plans for alternative use of the facility.

MR. BECKER addressed pages 27, "Ketchikan Current Use Analysis-Impact" as follows:

- Detained youth could have reduced access to courts and legal counsel due to distance between home community and Juneau.



- Potential for longer stays in detention due to reduced access to courts.
- Case management more difficult.
- Relocation away from community and family makes reintegration of youth more difficult.

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He addressed page 28, "Potential for Repurposing" and specified CGL conclusions as follows:

- The State of Alaska should continue to operate the Kenai, Mat-Su, and Nome Youth facilities in their current function.
- The facilities provide substantial value to the state juvenile justice system and their local communities.
- The facilities' highest and best use is in continued detention operations.

He summarized that CGL found no alternative purposes for any of the juvenile facilities that would result in cost savings to the state.

He addressed page 29, "Facility Operations Were Outstanding" as follows:

- Security systems provide effective control.
- Facility staff appear to be well-trained, dedicated professionals that manage in-custody youth in an effective manner.
- Staffing patterns at all facilities are appropriate given facility layouts and operational practices.
- All facilities maintain an exceptional array of programs, given their size, and are supported by active community participation.
- The Nome Youth Facility stood out for its cultural and other community-based programming.

MR. BECKER addressed page 30, "Mental Health Services." He said providing effective mental-health services is a change and detailed as follows:

- 56 percent of detained youth have a mental-health diagnosis.
- Available mental-health resources are strained.

- Current policies for recognizing and managing youth at risk for suicide are consistent with national best practices.
- The system lacks a comprehensive plan for effectively delivering mental-health services in facilities.

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He addressed page 31, "Recommendations" and detailed as follows:

1. Do not pursue privatization of detention facilities for juveniles.
2. Continue to operate the Kenai, Mat-Su, and Nome Youth facilities in their current function; their highest and best use is in continued operation as detention facilities.
3. Develop a housing and treatment program for adjudicated delinquents with long-term treatment needs at the Nome Youth Facility. The program would provide an alternative placement for youth at little or no additional cost to the state.
4. Develop a comprehensive plan for mental-health service delivery in detention facilities that defines service objectives, establishes specific strategies for the achievement of these objectives, and measures system performance.

CHAIR WILSON addressed Ms. Murray and noted that the state also came out and agreed with the recommendations of the CGL report; however, the department's supplemental budget continued to show zero funding for the Nome facility. He asked if the department plans to request funding for the Nome facility this year and continued years.

MS. MURRAY replied that the department is awaiting direction from the Legislature. She said the closure of any facility is going to be impactful. She asserted that the department wants to keep the services going because the facilities are important in the communities.

CHAIR WILSON asked if the department had a recommendation on keeping the Nome facility opened or closed.

MS. MURRAY answered that department supports the continued operation of detention services in the communities.

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SENATOR BEGICH asked if the department would be in support of funding the Nome facility.

MS. MURRAY answered yes.

SENATOR BEGICH asked if the Ketchikan facility has been turned back to the City of Ketchikan.

MS. MURRAY answered yes.

SENATOR MICCICHE stated that he is worried about the average-daily population. He noted that based on the 3-year data that CGL provided, the facilities on average have 15.5-empty beds, an inefficiency that cannot be cost effective in a time with a \$3.2 billion budget deficit, something that the Legislature has to look at. He asserted that there are no services available for private operators in the state because the state has always risen to the challenge of providing those funds. He said he would like to investigate the private services that are available in other states. He opined that private-service entities could be drawn to the state. He announced that he would provide Chair Wilson with a series of questions to get answers on for the committee.

CHAIR WILSON suggested that the department should be invited back for additional discussions.

SENATOR BEGICH commented that ample experience has shown that privatization of the juvenile-justice systems in many states has not been a pretty picture.

CHAIR WILSON thanked the presenters.

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There being no further business to come before the committee, Chair Wilson adjourned the Senate Health and Social Services Committee at 3:04 p.m.